Supreme Court, U.S.
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No. 96-2027

In The

Supreme Court of the United States

October Term, 1996

CHARLY INTERNATIONAL, APS
CHARLY HOLDINGS, INC.,

Petitioners,

v.

MCA RECORDS, INC.,

Respondent.

On Petition For Writ Of Certiorari To The Ninth Circuit Court Of Appeals

REPLY BRIEF IN SUPPORT OF PETITION FOR WRIT OF CERTIORARI

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TABLE OF CONTENTS

Page

INTRODUCTION 1

DISCUSSION 2

CONCLUSION 7

TABLE OF AUTHORITIES

Page

CASES

Asahi Metal Industry Co., Ltd. v. Superior Court, 480 U.S. 102 (1987) 1, 5, 6, 7, 8

Business Trends Analysts v. Freedonia Group, Inc., 650 F.Supp. 1452 (S.D.N.Y. 1987) 3

Cadence Design Systems, Inc. v. Venlog, S.A., 779 F.Supp. 473 (N.D. Cal. 1991) 4

Honeywell, Inc. v. Metz Apparatewerke, 509 F.2d 1137 (7th Cir. 1975) 3

Lipton v. The Nature Co., 781 F.Supp. 1032 (S.D.N.Y. 1992) 4

Pony International, Inc. v. Genfoot America, Inc., 223 U.S.P.Q. 1150 (S.D.N.Y. 1983) 3

INTRODUCTION

Basing its opposition on a view of the facts that played no part in the Ninth Circuit's decision, MCA avoids any meaningful response to the important constitutional issue raised in this petition. If the Ninth Circuit's opinion is allowed to stand, virtually every foreign licensor of worldwide distribution rights to artistic materials would be subject to jurisdiction in any forum, worldwide, in which the licensed product ultimately happens to land – even if the foreign licensor is far removed from the distribution process and has no other "contacts" with the forum. Respectfully, this expansive and near-unlimited view of personal jurisdiction pushes the "stream of commerce" argument far beyond the limits set by this Court in *Asahi Metal Industry Co., Ltd. v. Superior Court*, 480 U.S. 102 (1987).

The primary problem with MCA's opposition is that it is based upon facts that are vastly different from those that formed the basis of the Ninth Circuit's opinion. Indeed, in most instances the Ninth Circuit specifically held that MCA's "facts" were *not* sufficient to constitute either general or specific jurisdiction over Holdings or International. In other instances, the Ninth Circuit did not mention or rely upon MCA's version of the facts.

The only exception, and indeed the only fact upon which the Ninth Circuit based its analysis, was Holdings' license to International and International's license to a British company, of one song for use in a movie soundtrack record for "The Crying Game," which was ultimately shown in California. But if those worldwide licenses are enough to give rise to personal jurisdiction in

California, then almost every participant involved in the chain of artistic licensing, and ultimately every entity that touches a product in the unlimited and increasingly international stream of commerce, is subject to jurisdiction here as well.

This case thus presents a unique opportunity for the Court to build upon its holding in *Asahi* and clarify a significant issue of personal jurisdiction whose importance grows day by day with the ever-increasing pace of modern technology.

DISCUSSION

MCA's primary argument is that because of evidence *other than* that cited by the court itself, the Ninth Circuit's opinion properly followed earlier decisions of this Court on the issue of personal jurisdiction. The difficulty with this argument, however, is that the Ninth Circuit expressly held that most of this "other evidence" was not sufficient to give rise to personal jurisdiction.[1]

[1] In addition, many of the other "facts" cited by MCA are not supported in the record. For example, on page 2 of its brief, MCA asserts that "defendants" unlawfully duplicated and sold Chess Masters in the form of compact discs and cassette tapes. Not so. Although Charly Records, Ltd. manufactures and distributes records in England, neither Holdings nor International ever duplicated or sold *any* products, anywhere, whether in the United States or otherwise. (ER 1013-14, 1024-26.) Similarly, on page 3, MCA cites the license from International to Records but fails to note that such license explicitly excluded the United States. (SER 68.)

For example, as to Holdings' purchase of the Chess Masters from Red Dog, the Ninth Circuit observed that this "clearly does not qualify as a contact with California." Similarly, the court noted that although MCA made much of the fact that Holdings' name was found on the back of numerous compact discs distributed in California, "there is no evidence that Holdings (and not Records) was responsible for including it there." As to International's worldwide license to Records, the Court found that this license "cannot support jurisdiction because it specifically excluded the United States from its territory." (App. 18-19.) And the Ninth Circuit summarily rejected any possibility that Holdings and International were subject to general jurisdiction, noting that their contacts with California "fall well short of that required for general jurisdiction." (App. 19.)

Indeed, the only basis upon which the Ninth Circuit found specific jurisdiction over Holdings and International was the license to use one song, "The White Cliffs of Dover," for use in a movie soundtrack record for "The Crying Game." In this regard, the Ninth Circuit summarized its reasoning, and the one jurisdictional fact upon which it was based, in one sentence: "Holdings' license to International and International's license to the makers of 'The Crying Game' do, however, satisfy the purposeful availment requirement." (App. 19.)[2]

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[2] Furthermore, the cases cited by MCA do not support its argument that Holdings' and International's "license to sell Chess recordings" is sufficient to confer California jurisdiction. *Honeywell, Inc. v. Metz Apparatewerke*, 509 F.2d 1137 (7th Cir. 1975); *Pony International, Inc. v. Genfoot America, Inc.*, 223 U.S.P.Q. 1150 (S.D.N.Y. 1983); and *Business Trends Analysts v.*

Building on this one fact, the Ninth Circuit held that since trademark infringement is a commercial tort, and since MCA "resided" in California, the purposeful availment requirement for specific jurisdiction was satisfied so long as Holdings and International were aware of MCA's rights, knew that MCA was a California corporation, and knew that their licensing activities would result in infringing products being distributed in the United States. (App. 20.) With all respect, this is not so. The facts were to the contrary; and, in any event, the logic does not follow.

Factually, the record does not support the Ninth Circuit majority's conclusion in two important respects. First, nothing in the record shows that either Holdings or International knew that MCA was a California corporation. If that "fact" matters, as the Ninth Circuit held it did, the record offers no support. Second, and even more

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Freedonia Group, Inc., 650 F.Supp. 1452 (S.D.N.Y. 1987) were all decided before this Court enunciated the stream of commerce rule in *Asahi*.

In addition, in *Lipton v. The Nature Co.*, 781 F.Supp. 1032 (S.D.N.Y. 1992), the court held the defendant subject to New York jurisdiction under New York's long-arm statute, and did not even discuss Fourth Amendment principles. The court in *Cadence Design Systems, Inc. v. Venlog, S.A.*, 779 F.Supp. 473 (N.D. Cal. 1991) allowed California jurisdiction over the foreign defendant where the defendant had attended trade shows in California, promoted its product in California, actively sought to establish business relationships with California companies, made 24 business contacts in California, and advertised in a trade publication distributed in California. The numerous direct contacts made by the *Cadence* defendant are entirely distinguishable from the stream of commerce analysis in this case.

fundamentally, there was no evidence that the soundtrack album or its packaging contained any reference to Holdings, International, or the "Chess" name or logo. In fact, they did not. As a result, the Ninth Circuit's observations regarding the intentional tort of "trademark infringement" are simply wrong. And that, even according to the Ninth Circuit's analysis, makes all the difference. Why? Because the majority acknowledged that without an intentional tort, the licenses themselves would likely not be enough to establish jurisdiction:

> We recognize that, were Holdings and International not guilty of an intentional tort, the commercial aspects of their activities – granting a worldwide, nonexclusive license – would most likely be insufficient to establish purposeful availment in California.

(App. 21.)

Beyond these very significant factual errors, there is an even more fundamental legal flaw in the Ninth Circuit's analysis: it pushes the "stream of commerce" concept of personal jurisdiction, which this Court rejected in *Asahi*, to a level that is even more clearly inconsistent with fundamental fairness and constitutional due process. The most basic facts regarding the only issue that mattered to the Ninth Circuit – the licenses regarding "The Crying Game" – are not in dispute. Holdings, a Panamanian company, acquired a license to the Chess catalog from a Louisiana corporation. Holdings then licensed worldwide rights in the catalog to International, a Danish company. International, in turn, granted a license to a British company to use a single song from the Chess catalog (but *not* the "Chess" trademark) in a

motion picture soundtrack. (ER 920:13.) That agreement did not authorize use of the song in the movie itself. (ER 920:14, 921:17.) Yet the Ninth Circuit found that stream of commerce, at least two (or even three) steps removed, was sufficient to constitute purposeful availment.

Taken to its logical conclusion, this reasoning would mean that a worldwide licensor of artistic materials, or indeed almost any entity that participates in such licensing, would thereby be subject to worldwide personal jurisdiction. Or that a foreign licensor who has never directly licensed any product for distribution in the United States, or even conducted business here, would nonetheless be subject to suit in almost any state. With all respect, that is not and cannot be the law.

Finally, MCA's assertion that it would be denied effective protection in respect of its trademark unless petitioners were subject to jurisdiction in California is simply incorrect. If its trademark claims are valid, MCA has ample remedies against those persons and entities who actually sold the products in question in California, including record stores, distributors, and other entities that are clearly subject to jurisdiction in the United States. But in accordance with this Court's holding in *Asahi*, those remedies should not include asserting jurisdiction over foreign defendants, such as petitioners, who were many steps removed in the distribution process and whose only involvement was licensing activities that were unquestionably lawful in the foreign jurisdiction

where they took place.[3] Any other conclusion would simply be "stream of commerce" by another name.

CONCLUSION

In *Asahi*, this Court cautioned that "[g]reat care and reserve should be exercised when extending our notions of personal jurisdiction into the international field." The Court also held that merely placing a product in the stream of commerce with an expectation or awareness that it would reach the forum state is not sufficient to give rise to specific jurisdiction:

> The placement of a product into the stream of commerce, without more, is not an act of the defendant purposefully directed toward the forum State. . . . [A] defendant's awareness that the stream of commerce may or will sweep the product into the forum State does not convert the mere act of placing the product into the stream into an act purposefully directed toward the forum State.

Asahi, 107 S.Ct. at 115, 132.

The Ninth Circuit's disposition of this case disregards this important constitutional limitation and represents a far-reaching challenge to well-established Fourteenth Amendment principles of due process. This petition thus squarely raises a narrowly focused, increasingly important legal issue of constitutional dimension. It

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[3] As noted in the petition, the court in Belgium has recently ruled that Holdings is the owner of the "Chess" trademark in Benelux (Belgium, Holland, and Luxembourg).

also presents a unique opportunity for this Court to amplify and clarify its benchmark holding in *Asahi* in the context of an ever-increasing availability of artistic materials in the "stream of commerce" worldwide. This petition should therefore be granted.

Respectfully submitted,

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